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No. 96-

In the Supreme Court of the United States

OCTOBER TERM, 1996

WANG LABORATORIES, INC.,
Petitioner,

v.

MITSUBISHI ELECTRONICS AMERICA, INC. and MITSUBISHI ELECTRIC CORPORATION

Petition For A Writ Of Certiorari To The United States Court of Appeals For The Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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145 pp

QUESTION PRESENTED

Whether the Federal Circuit erred by rewarding a patent infringer with a royalty-free implied license based on a newly-fashioned doctrine of estoppel that the court of appeals created *sua sponte* in a radical departure from 70 years of settled principles in patent cases.

PARTIES TO THE PROCEEDING

Pursuant to Supreme Court Rule 14.1(b), petitioner states that all parties appear in the caption of the case on the cover page.

RULE 29.6 STATEMENT

Petitioner Wang Laboratories, Inc. has no parent corporation and no nonwholly owned subsidiaries.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner Wang Laboratories, Inc. respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra,* A1-A28) is reported at 103 F.3d 1571. The opinions of the district court, entering findings of fact and conclusions of law (App., *infra,* A40-A90), and ruling on post-trial motions (App., *infra,* A95-A119), are not reported.

JURISDICTION

The judgment of the court of appeals was entered on January 3, 1997. App., *infra*, A30-A31. A timely petition for rehearing was denied on March 12, 1997. *Id.* at A32-A33. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTE INVOLVED

35 U.S.C. § 271 provides, in relevant part, that "whoever without authority makes, uses, offers to sell or sells any patented invention, within the United States . . . infringes the patent."

INTRODUCTION AND STATEMENT OF THE CASE

The Federal Circuit has broken from established precedent by depriving a patent owner of the fruits of its invention and rewarding an infringer with a royalty-free implied license in the absence of any finding of misconduct by the patent owner, reliance by the infringer, or prejudice to the infringer. This holding by the federal court of appeals with exclusive appellate jurisdiction over patent cases is inimical to the policies undergirding our patent system and strikes a blow to companies seeking to remain competitive in technological industries. More generally, the decision below injects uncertainty in an area of patent jurisprudence that has been relatively stable for decades. Unless this Court grants review and reverses the decision below, that uncertainty will be perpetuated and exacerbated because of the Federal Circuit's primacy in this area.

The decision below also warrants review because it fundamentally misconceives the function of an appellate court reviewing factual determinations by a jury and federal district judge sitting in equity. The Federal Circuit *sua sponte* fashioned a new, amorphous standard for implied licenses that was not presented to the jury, that was not urged by any party, and that conflicts in crucial respects with well-supported factual findings by the jury that were endorsed by the district court. These errors in the Federal Circuit's overly intrusive appellate review touch upon several issues that this Court has recently found to merit certiorari. First, the decision below muddles the distinction between jury functions and judicial functions in patent cases, a subject about which this Court expressed concern in *Markman v. Westview Instruments, Inc.*, 116 S. Ct. 1384 (1996), and *Gasperini v. Center for Humanities, Inc.*, 116 S. Ct. 2211 (1996). Second, it undermines the stability of precedent that guides decisionmakers in technological industries, a factor this Court noted in *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 117 S. Ct. 1040 (1997). Third, the Federal Circuit engaged in appellate factfinding and *sua sponte* arrived at a basis for decision that the parties had no opportunity to address, subjects related to those currently pending before this Court in *Rogers v. United States*, No. 96-1279, *cert. granted*, May 27, 1997, and *Trest v. Cain*, No. 96-7901, *cert. granted*, May 27, 1997. For these reasons as well, certiorari is fully warranted.

1. Petitioner Wang Laboratories, Inc. ("Wang") holds patents for certain memory modules that allow a computer's central processing unit to read and write data in binary form. App., *infra*, A2. After developing Single In-line Memory Modules ("SIMMs") in the early 1980s, Wang sought to have its configuration become

the industry standard and to interest manufacturers in producing SIMMs for use in Wang computer equipment. *Id.* at A7-A8. Mitsubishi Electric Corp., a Japanese corporation, was one of the manufacturers Wang contacted about furnishing SIMMs for Wang computers. *Id.* at A9. After rejecting Wang for several years, in 1987 Mitsubishi began mass producing SIMMs for sale not only to Wang but also to other computer equipment firms worldwide. *Id.* at A9.

2. Mitsubishi's SIMMs infringed Wang's rights under patents that issued in 1987 and 1988. App., *infra*, A41-A44. Since Wang had never licensed Mitsubishi to practice these patents, Wang notified Mitsubishi in 1989 that its products were infringing. *Id.* at A70.

3. On June 4, 1992, Wang filed suit against Mitsubishi and its United States subsidiary in the United States District Court for the Eastern District of Virginia.[1] App., *infra*, A41. The complaint alleged patent infringement under 35 U.S.C. § 271. *Id.* at A41-A42. On Mitsubishi's motion, the case was transferred to the United States District Court for the Central District of California. *Id.* at A42.

At trial before a jury, one of Mitsubishi's principal defenses to patent infringement was the contention that its infringing conduct was justified by an implied license. An ongoing dispute between the parties was whether Mitsubishi's implied license defense rested on the theory of legal estoppel or on the distinct theory of equitable estoppel. App., *infra*, A11.

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[1] The district court's jurisdiction rested on 28 U.S.C. § 1338(a).

In submitting the implied license defense to the jury, the district court instructed that in order to uphold the defense the jury was required to find: (1) an existing relationship between Mitsubishi and Wang; (2) a transfer by Wang to Mitsubishi of the right to practice the patent; (3) a conveyance of valuable consideration in exchange for that right; and (4) a subsequent denial by Wang of the transferred right. *Id.* at A11-A12. This instruction recited the elements of a legal estoppel defense. The instruction on implied license did not articulate or require the jury to find the essential elements of an equitable estoppel defense. The jury was separately instructed on equitable estoppel in connection with a special interrogatory the jurors answered in an advisory capacity.

The jury found that Mitsubishi had infringed one of the patents at issue, but that Wang had impliedly licensed Mitsubishi to make, use or sell the subject matter of that patent. App., *infra*, A34-A39. The jury, sitting in its advisory capacity, expressly rejected Mitsubishi's defense of equitable estoppel. *Id.* [2]

On post-trial consideration of Mitsubishi's equitable defenses, the district court entered judgment consistent with the jury's recommended rejection of all such defenses. App., *infra*, A90, A91-94. Specifically, the district court found that Wang was not equitably estopped from asserting its patent rights. *Id.* at A82-A87, A93. With respect to each element of equitable

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[2] The jury (in its advisory capacity) and the district court also rejected Mitsubishi's remaining equitable defenses: inequitable conduct, laches, patent misuse and unclean hands. App., *infra*, A38-A39, A90.

estoppel, the court found that Mitsubishi's contention failed: the court found that Wang had not engaged in misconduct or misrepresentations, that Mitsubishi had not relied on any representations or conduct by Wang, and that Mitsubishi had suffered no prejudice. *Id.* at A52-A69.

Turning to Mitsubishi's implied license defense to Wang's claim of patent infringement, the district court upheld the jury's finding of an implied license on the only possible remaining ground -- legal estoppel. *Id.* at A98-A103. In so doing, it recognized that "there must be a minimum of judicial interference with the jury." *Id.* at A99. Consistent with the jury instruction and with the jury's well-supported rejection of equitable estoppel, the district court recognized that the only basis for finding an implied license was legal estoppel. *Id.* at A98-A103. Having upheld the finding of an implied license, the district court held that Wang -- the holder of a valid patent -- was not entitled to royalty payments under that license. *Id.* at A105-A106.

4. The United States Court of Appeals for the Federal Circuit affirmed. App., *infra*, A1-A29.[3] Contrary to principles that had been settled for at least 70 years, the court of appeals held that patent infringement could be excused by an implied license where the infringer had proved neither legal estoppel nor equitable estoppel.[4] Judge Rich's opinion for the court expressly refused to endorse the trial court's

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[3] The jurisdiction of the court of appeals rested on 28 U.S.C. § 1295(a)(1).

[4] In rejecting Mitsubishi's cross-appeal, the Federal Circuit expressly affirmed the finding of infringement. App., *infra*, A26.

reliance on legal estoppel, opting instead for "an alternative form of estoppel." *Id.* at A23.

That alternative was not, however, equitable estoppel. The court did not find that this case presented any of the well-settled essential elements of equitable estoppel: misleading conduct, reasonable reliance, and material prejudice. *See infra* at 9-12. With respect to "misleading conduct," the Federal Circuit observed that "both the jury, in its advisory capacity, and the district court decided against Mitsubishi on the defense of equitable estoppel per se, with *misleading* conduct as a required component of that defense." App, *infra,* at A21 (emphasis in original). The court of appeals did not dispute that determination. Nor did the court of appeals disturb, or even mention, the trial court's finding that Mitsubishi failed to prove reliance. Moreover, the Federal Circuit did not find that Mitsubishi suffered any material prejudice; the opinion below is silent on this point.

Based on the view that "[n]either this court nor the Supreme Court . . . has required a formal finding of equitable estoppel as a prerequisite to a legal conclusion of implied license," the Federal Circuit looked at none of the established indicia of equitable estoppel and held that the estoppel doctrines serve merely as "guidelines." App., *infra,* A21-A22. Having *sua sponte* dismissed the traditional components of equitable estoppel, the court explained *(id.)*:

> we affirm the judgment regarding Mitsubishi's implied license defense. In reaching this result, we hold that Mitsubishi's implied license is in the nature of equitable rather than legal

> estoppel, because the license arose from an accord implicit in the entire course of conduct between the parties . . . .

Based on this analysis, the court held that Wang was entitled to no compensation resulting from Mitsubishi's infringing use of the relevant patent. Consequently, "Mitsubishi possesses an irrevocable royalty-free license." *Id.* at A23.

REASONS FOR GRANTING THE PETITION

Inherent in our constitutionally-based patent system is the premise that inventors must be free to reap the fruits of their creations. Among the fundamental rights of the patentee is the sole discretion to select licensees and to establish the terms of any license to practice the patent. For decades it was well-established and well-understood that a patentee could not be deprived of that vital benefit except in rare cases where an infringer met the high standard of showing specific misconduct that warranted an implied license. The elements of the implied license defense to patent infringement were also well-established and well-understood.

The decision below upsets that jurisprudential stability. In place of the traditional elements of legal estoppel and equitable estoppel, the Federal Circuit fashioned a wholly standardless rule. Under the decision below, a license -- indeed, a royalty-free license -- may be implied long after the fact when the "entire course of conduct" is merely "in the nature of equitable estoppel," but does not satisfy even one of the essential elements of such an estoppel. This incorrect decision by the sole federal court of appeals that hears

patent cases poses the risk of injecting great uncertainty into to the patent system and warrants this Court's prompt correction.[5] Unless this Court grants review and reverses the decision below, culpable infringers will be able to find refuge in the newly-enlarged safe harbor of implied license, and federal courts will be forced to adjudicate cases based on the "entire course of conduct" without any firm rules or guidance.

I. THE DECISION BELOW BREAKS WITH PRECEDENT AND CREATES A NEW, STANDARDLESS DOCTRINE OF ESTOPPEL

Until the decision below, the standards governing the defense of equitable estoppel in a patent infringement action were well-established. In order to prevail, an accused infringer had to establish three elements: (1) that the patentee communicated to the accused infringer through misleading words or conduct that it did not intend to press an infringement claim against the accused infringer; (2) that the accused infringer substantially relied on the patentee's misleading conduct in taking some action; and (3) that the accused infringer will be materially prejudiced if

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[5] *See Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574 (Fed. Cir. 1984) ("[the Federal Circuit] was created, as contemplated by the Congress, to achieve uniformity and to reduce uncertainties in [the area of patent law]. This court, thus, has a mandate to achieve uniformity in patent matters"); *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736, 744 (Fed. Cir. 1990) ("[t]he availability of a clear, stable, uniform basis for evaluating matters of patent . . . infringement/noninfringement renders more predictable the outcome of contemplated litigation, facilitates effective business planning, and adds confidence to investment in innovative new products and technology").

the patentee is permitted to press its patent infringement claim. *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1042-43 (Fed. Cir. 1992); *see also Hemstreet v. Computer Entry Sys. Corp.*, 972 F.2d 1290, 1294 (Fed. Cir. 1992) (three-part *Aukerman* standard is the proper test to apply to a defense of equitable estoppel); *Gasser Chair Co. v. Infanti Chair Mfg. Corp.*, 60 F.3d 770, 776 (Fed. Cir. 1995) (applied *Aukerman* test to defense of equitable estoppel); *ABB Robotics, Inc. v. GMFanuc Robotics Corp.*, 52 F.3d 1062, 1063 (Fed Cir.) (same), *cert. denied*, 116 S. Ct. 306 (1995).

If the infringer did not establish these three elements, its defense of equitable estoppel failed.[6] Similarly, if any of these elements was lacking, equitable estoppel could not serve as the basis for a defense of implied license. *See Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 925 (Fed. Cir. 1984) (court held that district court was incorrect in concluding that an implied license was extended to appellee under doctrine of equitable estoppel where required element of "reliance" was not present).

Those clearly delineated standards remained settled until the decision below. In place of the plainly demarcated elements of equitable estoppel, the Federal

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6 *See Young Engineers, Inc. v. United States Int'l Trade Comm'n*, 721 F.2d 1305, 1317 (Fed. Cir. 1983) (where appellant offered no evidence to satisfy requirement of detrimental reliance, defense of equitable estoppel was not available); *Hall v. Aqua Queen Mfg., Inc.*, 93 F.3d 1548, 1558 (Fed. Cir. 1996) (court vacated district court's grant of summary judgment in favor of appellee on equitable estoppel grounds where appellee failed to provide sufficient evidence that it had relied on appellant's misleading conduct during the relevant time period).

Circuit upheld an infringer's implied license defense where the "entire course of conduct" suggested something "in the nature of equitable estoppel." Significantly, the court did not define the boundaries of its "in the nature of" doctrine, and the opinion below omitted vital factors from the decisionmaking analysis. It is evident, for example, that the new standard does not require an infringer to satisfy even one of the elements of equitable estoppel. After all, the district court had expressly found that all three elements were lacking (consistent with the jury's answer to special interrogatories that also expressly rejected Mitsubishi's equitable estoppel defense). The Federal Circuit did not find that these findings of fact were erroneous, nor did the court of appeals conclude that the record would have supported findings of misconduct, reliance or prejudice. Instead of requiring an actual showing of equitable estoppel, the court held that a far lesser showing sufficed to bar a claim of infringement brought by the holder of a valid patent.

In holding that a "course of conduct" between parties could give rise to an implied license, the Federal Circuit relied upon language this Court employed 70 years ago in *De Forest Radio Telephone Co. v. United States*, 273 U.S. 236, 241 (1927):

> No formal granting of a license is necessary in order to give it effect. Any language used by the owner of the patent, or any conduct on his part exhibited to another from which that other may properly infer that the owner consents to his use of the patent in making or using it, or selling it, upon which the other acts, constitutes a license and a defense to an action for a tort.

In the 70 years since *De Forest*, courts have construed this language to mean that an implied license created by the "course of conduct" of the parties is, in effect, equivalent to an implied license by equitable estoppel. *See Spindelfabrik Suessen-Schurr Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1080 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1063 (1988); *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d at 925; *Stickle v . Heublein, Inc.*, 716 F.2d 1550, 1559 (Fed. Cir. 1983) ("the relatively few instances where implied licenses have been found rely on the doctrine of equitable estoppel"); *Kurt H. Volk, Inc. v. Foundation For Christian Living*, 534 F. Supp. 1059, 1083 (S.D.N.Y. 1982) ("[t]he premises that give rise to an implied license are, in reality, a specific application of the general doctrine of equitable estoppel") (citation omitted). By ignoring the required elements of equitable estoppel and affirming the finding of an implied license "in the nature of" equitable estoppel, the decision below has no basis in precedent and is contrary to well-established doctrine. Moreover, as we now show, such a novel and amorphous ruling will generate confusion and uncertainty in an area of the law where clear, defined guidelines are essential.

II. THE DECISION BELOW CREATES CONFUSION AND INEVITABLY WILL GENERATE UNPREDICTABILITY IN PATENT LAW

1. The decision below will give rise to confusion and unpredictability. The Federal Circuit's undefined test provides little guidance about what circumstances can create an implied license. Because the standards were clear prior to the decision below, patentees understood the factors that courts used to determine

whether an implied license had been created by the parties. Patentees could therefore avoid steps that could unwittingly result in the transfer of their statutory patent rights.

Under the decision below, however, patentees face the possibility that any "course of conduct" which could arguably lead to the inference of consent to patent use might create an implied royalty-free license to practice their patent. Accordingly, any communication between patentee and potential infringer is at the patentee's peril. The lack of clear guideposts threatens to chill interaction among those in the business community instead of encouraging the communication and cooperation that are essential to industrial and technological growth.

2. Aside from these practical business uncertainties, the decision below also creates substantial confusion for district judges across the nation who preside over trials in patent cases. Foremost among these newly-minted difficulties is the proper role of judge and jury.

In subsequent cases, trial courts in patent litigation will be in a quandary over the proper division of responsibility between judge and jury in resolving claims of implied license based, in whole or in part, on equitable estoppel. That uncertainty arises from the Federal Circuit's affirmance of the verdict reached by the jury as the finder of fact based on an equitable doctrine that the jury expressly rejected in its advisory capacity.[7] In these circumstances, trial courts are surely

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[7] The trial court confirmed the jury's rejection of equitable estoppel in a post-trial order that Mitsubishi did not challenge on

left adrift. If an infringer raises an implied license defense based on equitable estoppel and the jury is the appropriate finder of fact, is the trial judge empowered to revisit and reconstruct the verdict as the Federal Circuit did here? The Seventh Amendment expressly precludes such judicial trespass on the province of the jury.[8] On the other hand, if the defense of implied license based on equitable estoppel is properly committed to the judge for decision, then the Federal Circuit erred by upholding the jury verdict rather than reversing the district court's rejection of equitable estoppel.

3. The decision below also misperceived the proper scope of appellate review. First, the Federal Circuit held that the jury "necessarily found" five facts on the issue of implied license, including that "Wang's statements and conduct created the impression that Wang consented to Mitsubishi making, using, or selling Wang's patented inventions, including sales to consumers other than Wang." App., *infra*, A18, A19. That conclusion is flatly contradicted by the relevant jury instruction (*id.* at A11-A12), which required the jury to find only four facts to support the implied license defense, and merely advised that the jury "may consider" the conduct that the Federal Circuit elevated to a necessary predicate of the verdict. Since the jury did not necessarily find such conduct, the Federal

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appeal and that the Federal Circuit did not disturb. App., *infra*, A22.

[8] The Seventh Amendment provides that "no fact tried by a jury, shall be otherwise reexamined in any Court of the United States, than according to the rules of the common law." U.S. Const. Amend. VII.

Circuit's reliance on such "facts" is impermissible appellate factfinding. *See Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 855-58 (1982); *Pullman-Standard v. Swint*, 456 U.S. 273, 287-90 (1982).

The instructions to the jury -- and the jury's express rejection of Mitsubishi's equitable estoppel defense -- show that the finding of implied license was necessarily predicated on legal estoppel. Indeed, it was solely on the basis of legal estoppel that the district court upheld the jury verdict. App. , *infra*, at A11-A12. Yet the Federal Circuit expressly stated that its affirmance was ***not*** based on legal estoppel,[9] but on a previously unknown variation on equitable estoppel. That decision also conflicts with settled principles of appellate review. Courts of appeals do not have a roving commission to re-evaluate and uphold jury verdicts by invoking standards that were never presented to the jury.[10] Even if there were room for

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9 Indeed, one portion of the Federal Circuit's opinion pointedly questions whether the findings of fact at trial were sufficient to establish legal estoppel. App., *infra*, A23.

10 The Federal Circuit's departure from settled norms of appellate review is all the more worthy of this Court's review because the dispositive premise of the decision below -- a doctrine "in the nature of" equitable estoppel -- was not advanced by any party in the district court or the court of appeals and was not addressed by any briefs in the court of appeals. The *sua sponte* imposition of a standard that the parties never had an opportunity to address is in conflict with decisions of the courts of appeals. *See Frederick v. Marquette Nat'l Bank*, 911 F.2d 1, 2 (7th Cir. 1990) ("[i]t would be reckless to affirm on a ground that the appellant had never had a chance to address because the appellee had failed to raise it").

any appellate reconstruction of a jury verdict, such an effort was grossly misplaced in this case where the jury's answers to special interrogatories expressly rejected Mitsubishi's equitable estoppel defense.

With the decision below as precedent, trial courts lack adequate guidance on the substance of equitable estoppel and on the procedural aspects of adjudicating this important defense to a claim of infringement. The pressing need for this Court's resolution of these issues is abundantly clear.

Indeed, courts of appeals routinely reverse district court decisions based on issues raised *sua sponte* without affording the parties fair opportunity to respond. *United States Dev. Corp. v. Peoples Fed. Sav. & Loan Ass'n*, 873 F.2d 731, 736 (4th Cir. 1989) ("regardless of a claim's merits, a district court may not *sua sponte* enter summary judgment against it until the claim's proponent has been given notice and a reasonable opportunity to be heard"); *John Deere Co. v. American Nat'l Bank, Stafford*, 809 F.2d 1190, 1192 (5th Cir. 1987) ("a district court may not grant summary judgment *sua sponte* on grounds not requested by the moving party").

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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